KEY ECONOMIC INDICATORS

UPDATE

HOUSE FISCAL AGENCY

Economic Data Pertaining to
the U.S. and Michigan Economies
for Members of the Michigan Legislature

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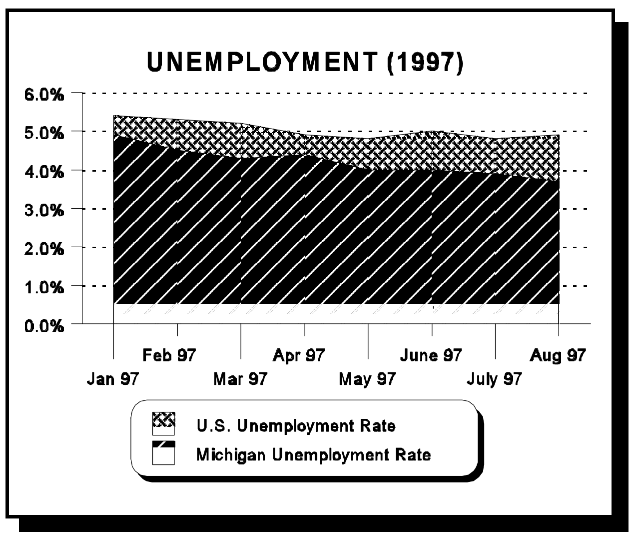
Employment

Trends in the Labor Market[1]: Michigan's unemployment rate reached an all-time low in August, falling 0.2 percentage points to 3.7%. This represents 190,000 unemployed workers in Michigan. Last year at this time, the jobless rate stood at 4.8% with 230,000 unemployed workers. Moreover, the gap between the average state and national unemployment rates widened yet again — it now stands at 1.2% (the U.S. rate increased 0.1 percentage points to 4.9%). The year-to-date average unemployment rate for Michigan is 4.2%, compared to a 4.7% average rate over the same period last year. The U.S. year-to-date average unemployment rate is 5.0%.

- In August, despite the lower unemployment rate, the Michigan employment level decreased by 7,000 jobs to 4.67 million[2]. This still represents an increase of 85,000 workers since a year ago.

- Michigan's unadjusted wage and salary employment level for August was 47,000 jobs higher than in August of last year; increases in the services and construction sectors were responsible. Also, job levels in the durable goods sector increased in August from a month ago due, according to the Michigan Employment Security Agency, to the ". . . end of a long labor dispute combined with the completion of July model changeover and vacation shutdowns in the auto industry . . ." that boosted motor vehicle employment.



[1] U.S. unemployment figures are supplied by the Bureau of Labor Statistics. Michigan employment figures are supplied by the Michigan Employment Security Agency. Data are seasonally adjusted at annual rates unless otherwise indicated.

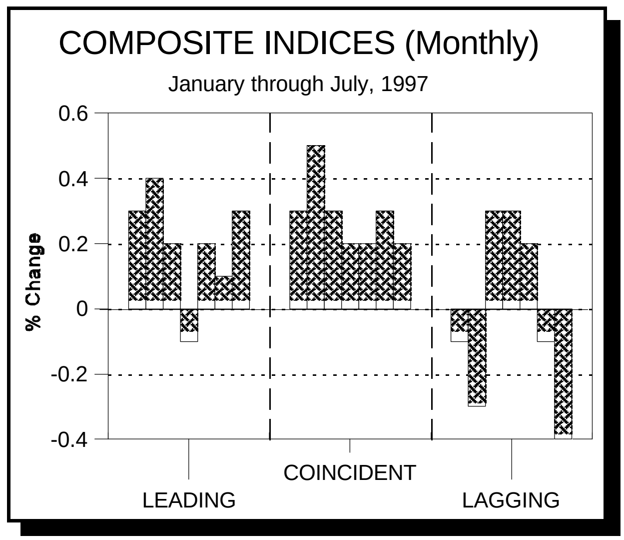
[2] The lower unemployment rate is a result of a decrease in the labor force of 15,000 due to lower than expected employment gains in retail and construction.

This update was prepared by Stephen Marasco under the direction of Mitchell Bean, HFA Senior Economist.

The National Economy

Composite Indices[3]: In predicting the future path of the economy, economists traditionally look at three types of indices: the composite index of *leading* economic indicators, the composite index of *coincident* economic indicators, and the composite index of *lagging* economic indicators. The value of each index is derived from several economic indicators and is calculated by The Conference Board, Inc., New York, N.Y.

- The **composite index of leading economic indicators**[4] decreased in April for the first time in over a year but rebounded swiftly, gaining a combined 0.6 percentage points in May, June, and July, to reach an all-time high of 104.1. Increases in stock prices were the largest positive contributor to the index rise in all three months. The recent volatility of the stock market may, however, threaten stock price increases and thus curb gains in the leading index in the future. Still, the first seven months of 1997 produced an increase of 1.4 percentage points in the leading index, representing a 2.3% annual growth rate. This suggests the economy should continue to grow at a relatively strong pace for the foreseeable future.



- The **composite index of coincident economic indicators** continued its ascent, hitting 116.2 in July, an increase of 0.2 percentage points over June. Each component of the coincident index has increased in every month of 1997, providing further evidence of the present strength of the economy.

- The **composite index of lagging economic indicators** has decreased for two straight months, falling to 104.7 in July. Although this contradicts the solid economic growth experienced in the first half of 1997, it is a peculiarity in the data and not of significance.

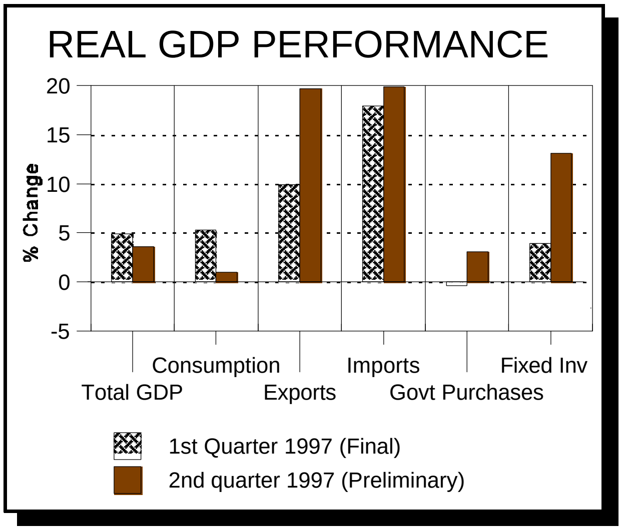
Components of Gross Domestic Product[5]: Gross domestic product (GDP) measures the total value of all final goods, services, and structures produced in the United States. GDP growth is the standard measure of the performance of the economy, and has four main components: personal consumption expenditures, gross private domestic investment, government purchases of goods and services, and net exports (exports less imports) of goods and services.

[3] Data on composite indices are seasonally adjusted and are published in *Business Cycle Indicators,* The Conference Board. The *leading index* is composed of: several employment measures, measures on new orders and contracts for various durable goods, measures of consumer expectations, and measures of several monetary variables. The composition of the leading index was changed effective December 30, 1996 to include a measure based on interest rates, and to exclude a measure of materials prices and a measure of demand for durable goods. The *coincident index* contains measures of employment, income, production, and manufacturing and trade sales. The components of the *lagging index* include measures of output and unemployment, the consumer price index for services, and various monetary indicators.

[4] Some of the past values of each index have changed since the last publication due to the revision of several components in each of the three indices.

[5] Data on macroeconomic variables are expressed in chained 1992 dollars and are available from the *Survey of Current Business*, U.S. Department of Commerce, Bureau of Economic Analysis.

Estimates for **real GDP growth** (SAAR)[6] in the second quarter of 1997 were revised upward from a moderate 2.2% to a more imposing 3.6% (preliminary). Although slower than the 4.9% growth rate experienced in the previous quarter, the revision rekindled fears that inflation may be on the horizon. Recent indications are that these fears may be premature (see below). The slowdown in growth in the second quarter can be attributed to a decrease in consumption expenditures on goods and a deceleration of inventory investment.

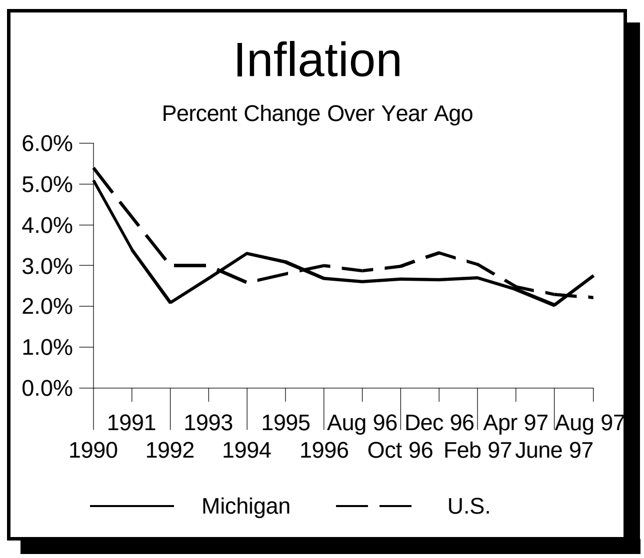


- **Consumption expenditures** fell sharply, decreasing from a very strong first quarter 1997 growth rate of 5.3% (SAAR) to a very lackluster growth rate of 1.0% in the second quarter of 1997. This can be attributed to a reduction of expenditures on goods. Expenditures on services increased.

- **Net exports** decreased from -$126.3 billion (SAAR) in the first quarter of 1997 to -$132.7 billion in the second quarter of 1997. Both imports and exports recorded strong increases.

- **Total government expenditures** increased by 3.1% (SAAR) in the second quarter, fueled by a 7.6% increase in federal defense expenditures.

- **Fixed investment expenditures** grew by 13.1% (SAAR) in the second quarter of 1997, largely due to a significant increase in producers' durable equipment expenditures.



Inflation: Increases in the **consumer price index (CPI)** remain moderate[7]. Despite a strong first half economy, the CPI increased at an annual rate of 2.3% in August, up from an even more restrained increase of 1.4% in July. Signs of future inflation are not convincing; two common indicators used to predict future inflation, the **capacity utilization rate** and the **producer price index (PPI)**, have been relatively stable over the past year. The PPI did jump 0.4 percentage points in August[8], but it is 0.2% below its level of a year ago. Inflation in Michigan[9] has also been moderate over the last year. The **Detroit-Ann Arbor consumer price index** reached 156.9 in August, only 2.8% above its year ago level and 1.2% above June's level.

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[6] Seasonally adjusted at annual rates (SAAR).

[7] Inflation is measured by the rate of change in the consumer price index (CPI), and is calculated by the Bureau of Labor Statistics.

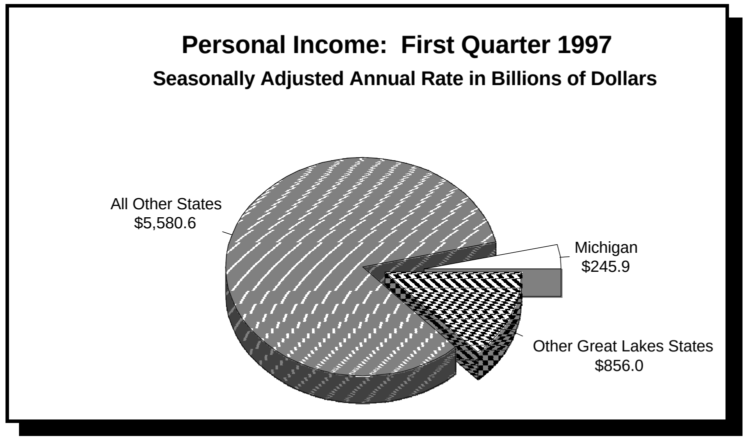
[8] Measured by 'finished goods' (1982 = 100).

[9] Measured as the rate of change of the Detroit-Ann Arbor consumer price index.

The Michigan Page

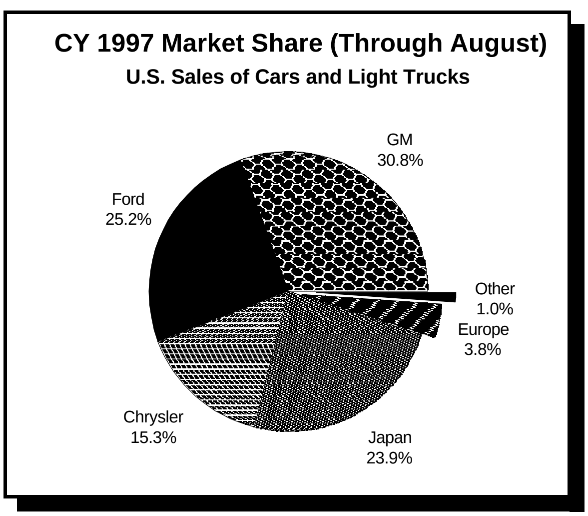
Personal Income[10]: Growth in state tax revenue is largely determined by growth in state personal income. Michigan's personal income growth in the first quarter of 1997 was, once again, below the U.S. average.

- The U.S. Department of Commerce reported that **Michigan's personal income** (preliminary) totaled $245.9 billion (SAAR) in the first quarter of 1997, an increase of 1.4% over the fourth quarter of 1996 (the U.S. increased 1.7%). The moderate growth can be attributed primarily to a reduction in earnings in the farm sector (which decreased 5.1%) and the durable goods sector.



- **Real disposable income**[11] is an indicator of future expenditures in the durable goods sector. This sector, comprised of light vehicles and other goods, is an important contributor to the Michigan economy. Real disposable income for the U.S. increased only slightly in the second quarter of 1997, up a mere 0.06% (SAAR) from the first quarter. This is consistent with the slowdown in consumption of durable goods reported on the previous page, and suggests that spending on durable goods in the future may continue to be sluggish.

Auto Industry[12]: Sales of U.S. cars and light trucks are slightly behind last year's pace, totaling just over 10.3 million units in the first eight months of 1997. The decrease is due almost entirely to a decline of 4.0% in U.S. car sales, which can be attributed to an 8.0% decline in Big Three car sales. Both Japanese and European car sales are up. Because of this, total U.S. light vehicle sales are 0.8% behind last year's pace despite the fact that light truck sales increased by 2.4%. Total foreign sales in the U.S. are up, with Japanese vehicle sales climbing 5.4% and European vehicle sales climbing 9.6%. As a result, the foreign share of light vehicle sales increased 1.8 percentage points over the same period last year. Sales for the month of August were slightly ahead of August 1996 sales with Japanese vehicles accounting for most of the gain. Year-to-date 1997 **total U.S. production** is slightly behind last year's pace, totaling 7.93 million units. Light truck production has actually increased by 3.4%, whereas car production has declined by 5.2%.



[10] Personal income data are reported by the U.S. Department of Commerce, Bureau of Economic Analysis. Income figures are seasonally adjusted at annual rates (SAAR).

[11] Disposable income figures are chain weighted and seasonally adjusted at annual rates (SAAR).

[12] Automotive figures are published in the *Automotive News*.